

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2825-03
Bill No.: SCS for HCS for HB 1
Subject: Business and Commerce; Economic Development; Insurance Department;
Taxation and Revenue
Type: Original
Date: August 28, 2007

Bill Summary: This proposal modifies provisions of certain Department of Economic Development programs.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|--|---------------------------------------|---------------------------------------|---------------------------------------|
| FUND AFFECTED | FY 2008 | FY 2009 | FY 2010 |
| General Revenue | (\$480,676 - \$35,480,676) | (\$745,043 - \$48,745,043) | (\$757,650 - \$66,757,650) |
| Total Estimated Net Effect on General Revenue Fund* | (\$480,676 - \$35,480,676) | (\$745,043 - \$48,745,043) | (\$757,650 - \$66,757,650) |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|--|----------------|----------------|----------------|
| FUND AFFECTED | FY 2008 | FY 2009 | FY 2010 |
| | | | |
| Total Estimated Net Effect on <u>Other</u> State Funds* | \$0 | \$0 | \$0 |

* The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 21 pages.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|------------|------------|------------|
| FUND AFFECTED | FY 2008 | FY 2009 | FY 2010 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|---|---------------|---------------|---------------|
| FUND AFFECTED | FY 2008 | FY 2009 | FY 2010 |
| General Revenue | 13 FTE | 13 FTE | 13 FTE |
| Total Estimated Net Effect on FTE | 13 FTE | 13 FTE | 13 FTE |

☒ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|--|------------|------------|------------|
| FUND AFFECTED | FY 2008 | FY 2009 | FY 2010 |
| Local Government* | \$0 | \$0 | \$0 |

*** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

FISCAL ANALYSIS

ASSUMPTION

In response to a previous version of this proposal, officials from the **Office of Administration - Budget and Planning (BAP)** stated the proposed legislation would have the following impact;

Sections 32.105, 100.286, 135.460, 135.478, 135.500, 135.545, 135.550, 135.600, 135.630, 135.1150, 173.796, 348.300, 620.495, 620.638, 620.1039;

The proposal modifies several definitions to include charitable organizations that are exempt from federal income tax in the list of companies and/or individual taxpayers who are eligible for a variety of tax credit programs. This would open up these programs to a new section of eligible participants. This may increase the redemption rate of these credits if the current redemption rates are not 100 percent. The Department of Economic Development may have an estimate of increased costs resulting from these changes.

Section 67.306

This section creates a new section allows the resale of admission tickets at any price. This section will not impact general and total state revenues.

Sections 99.805, 99.843;

These sections define the term "Greenfield" for TIF purposes and prohibit new TIF districts in certain Greenfields. These sections will not impact general and total state revenues.

Section 99.820;

The proposal modifies various sections pertaining to tax increment financing. For municipalities within the East-West Gateway, they must create a TIF commission through which all recommendations for proposed redevelopment must first be approved. The proposal prohibits any new TIF projects in one hundred year flood plains as well as Greenfield areas within the East-West Gateway region. BAP assumes there is no additional statewide impact.

Section 99.1205;

The proposal creates the Distressed Areas Land Assemblage Tax Credit program. The program provides for a 50% tax credit on acquisition costs and 100% on interest costs incurred on an eligible parcel of land for a period of five years. The tax credits may be carried forward for six consecutive years or until the credit is fully used, whichever occurs first. The tax credit is sellable and transferable. The total aggregate amount of tax credits authorized under this program shall not exceed \$95 million dollars and the proposal sets an annual cap of \$10 million dollars for the program. This proposal could therefore lower general and state revenues by \$10 million dollars annually beginning in FY08. This program may stimulate other economic activity, but Budget and Planning does not have data to estimate the induced revenues. The

ASSUMPTION (continued)

Department of Economic Development may have such an estimate.

Section 135.679;

The proposal creates the Qualified Beef Tax Credit which allows income tax credits for qualifying sales of qualifying beef animals. The proposal includes three-year carry-back and five-year carry-forward provisions, but is not refundable. The annual cap for the program is \$3 million; therefore this proposal could annually lower general and total state revenue by that amount.

Section 135.680;

The proposal creates a state program similar to the federal New Markets Tax Credit Program which authorizes tax credits to any investor who makes investments in low income communities. The credit has a five-year carry-forward provision. The total amount of tax credits issued in any fiscal year shall not exceed \$15 million. Therefore, this proposal could lower general and total state revenues by that amount, beginning in FY10. This program may stimulate other economic activity, but Budget and Planning does not have data to estimate the induced revenues.

Section 135.750;

The proposal modifies requirements, modifies provisions of issuance, and increases the tax credits awarded for investment in film production. The current cap for this program is \$1,500,000 annually. Beginning January 1, 2008, tax credits certified under this program shall not exceed \$4,500,000 per year. This proposal could therefore lower general and state revenues by \$3 million annually. This program may stimulate other economic activity, but Budget and Planning does not have data to estimate the induced revenues. The Department of Economic Development may have such an estimate.

Sections 135.950 - 967;

The proposal modifies definitions and eligibility requirements for the enhanced enterprise zone program. The proposal increases the annual cap of tax credits available from \$7 million dollars to \$14 million dollars. This proposal could therefore lower general and state revenues by \$7 million annually. This program may stimulate other economic activity, but Budget and Planning does not have data to estimate the induced revenues. The Department of Economic Development may have such an estimate.

Section 144.030(12);

This section adds language allowing a rebuttable presumption that the raw materials used in auto manufacturing contain at least 25 percent recovered materials. Budget and Planning defers to the Department of Revenue for any estimated impact.

ASSUMPTION (continued)

Section 173.196;

Allows MO Higher Education Scholarship Donation tax credits to be sold and transferred. This provision may increase redemptions of previously issued credits. This proposal may lower general and total state revenues by an unknown amount.

Section 178.716;

The proposal allows the creation of vocational school districts within certain counties. B&P assumes there is no additional statewide impact. B&P suggests this section be sent to DESE and DHE for review.

Sections 178.895 - 896;

The proposed legislation extends the date for the Missouri Community College Job Training program until 2028 and the date for community college districts to sell certificates until 2018. B&P assumes there is no additional statewide impact.

Sections 620.511 - 513 and repeal of Sections 620.521 - 620.537;

The proposal removes outdated language pertaining to the Missouri Training and Employment Council and adds Workforce Investment Board language. B&P assumes there is no additional statewide impact.

Sections 620.1878 - 1881;

The proposal modified definitions and eligibility requirements for the Missouri Quality Jobs Program. The proposal allows these tax credits to be applied against insurance taxes. The proposal also increases the annual cap of tax credits available from \$12 million dollars to \$40 million dollars. This proposal could therefore lower general and state revenues by \$28 million annually. This program will stimulate other economic activity, but Budget and Planning does not have data to estimate the induced revenues. The Department of Economic Development may have such an estimate.

The proposal creates a category within the Quality Jobs Program for small business retention and flood survivor relief. The limit for tax credits per company, per year is set at \$250,000 but may be increased to \$500,000 if approved by the quality jobs advisory task force. The aggregate cap for all such tax credits is \$500,000 per year. This proposal could therefore lower general and state revenues by that amount, to the extent that these amounts were not previously issued under the Quality Jobs program.

ASSUMPTION (continued)

Officials from the **Department of Economic Development (DED)** state additional Missouri Quality Jobs (MQJ) credits of \$28 million and Enhanced Enterprise Zone (EEZ) credits of \$7 million could be issued. Credits issued in year one would not be earned or claimed until the start of the third fiscal year. Projections prepared by the DED Missouri Economic Research and Information Center indicate a return on investment (ROI) by year three of 1.44 to 1 for MQJ and 1.86 to 1 for EEZ. The amount of positive economic benefit to Missouri would be some positive but unknown figure. The ROI on the New Jobs Training Credit was 2.24 to 1 in FY 2006. This positive economic benefit exists now and would still be in effect through FY 2008. The benefit would continue to be realized if the extension of this tax credit was implemented. The ROI factors times the dollars of credit issued would be the positive benefit realized.

DED states that section 99.1205, Distressed Areas Land Assemblage Tax Credit of \$95M Cumulative Cap at \$10M per year is authorized by this bill. Section 135.680 -- New Market Tax Credit can be issued starting in FY 09 at a rate of \$15 million per year. Section 135.750 -- Film Production tax credit cap was increased by \$3.0M per year. There are numerous other changes with no impact or do not impact DED. DED assumes the costs of all tax credit or incentive programs would be offset by some positive but unknown economic benefits to the state.

DED assumes the need for four employees plus E & E to administer the changes included in this legislation. DED assumes the administrative cost will be around \$350,000 even though the changes will make the over all impact unknown

Section 135.679 - Qualified Beef Tax Credit Act;

Officials from the **Department of Agriculture (AGR)** state the legislation pertains to qualified beef animals born on or after August 28, 2008. That means that those beef animals would be weaned in the spring of 2009 and then backgrounded until the required 200 lbs is met which would be sometime during the fall of 2009 (FY 2010). There are some 1,675,000 feeder calves sold each year. If only 10% or 167,500 of those animals put on an extra 200 lbs above the baseline weight then the maximum tax credits per fiscal year of \$3,000,000 would be exceeded.

AGR assumes a cost of \$3 million in FY 2010 as a result of the proposal. AGR also assumes the proposal would not require additional FTE to implement.

Oversight will utilize AGR's assumption of FY 2010 as the initial impact of the proposal on Total State Revenues.

In response to a similar proposal from this year, officials from the **Office of the State Treasurer** assumed this part of the bill would not fiscally impact their agency.

ASSUMPTION (continued)

Section 178.716 - Vocational School District;

Officials from the **Department of Higher Education (DHE)** state the impact of this legislation on their agency is unknown, but it may be significant. Section 178.715 allows for the establishment of at least one vocational school district, which is a new category of post-secondary institution, in one or more specific counties in Missouri. It is not clear whether one institution is to serve all of the counties listed in the legislation or if each county could establish its own institution. Three of the counties listed in this amendment overlap with an existing community college district. This may cause conflict if the same types of programs are offered in both districts.

If a vocational school district or multiple vocational school districts are established, the DHE would be required to establish standards for organization of the district(s), conduct a study to determine if the standards were met, and monitor the establishment of the vocational school district(s). Program approval may be required by the DHE and the availability of state aid for these districts may need to be considered. Considering the scope of this legislation, 1.0 FTE would be necessary to develop, administer, and monitor the standards for establishment of this new type of institution.

Based on the requirements contained in this legislation, the DHE has projected that 1.0 FTE at the Research Associate level, currently estimated at \$49,593 in salary plus benefits and associated expense and equipment, would be necessary to implement the provisions of this legislation. This represents costs for the first year (FY 2008) with corresponding anticipating increases for FY 2009 and FY 2010.

Sections 178.895 & 178.896 - Community College Job Training program;

Oversight assumes extending the sunset date in which community colleges may sell certificates for the Community College New Jobs Training program from 2008 to 2018 will have a negative fiscal impact to the state, but would be in fiscal years beyond the scope of this fiscal note.

Sections 620.1878 - 620.1881- Quality Jobs Program;

Oversight assumes the new Small business job retention and flood survivor relief within the Quality Jobs program (620.1881.3 (5)) will be using existing credits under the new \$40 million cap. Therefore, Oversight will not reflect a potential fiscal impact of \$250,000 or \$500,000 annually from this program.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** assume Section 99.1205 establishes a new tax credit with carry-forward provisions. Personal Tax would require 1 Tax Processing Technician I for every 6,000 credits claimed.

Section 135.679 establishes a new tax credit; Personal Tax would require 1 Tax Processing Technician I for every 6,000 credits claimed for verification/processing purposes.

Section 135.680 establishes a new tax credit with carry-forward provisions; PT would require 1 Tax Processing Tech I for every 6,000 credits claimed.

The recapture requirement would create an additional line on the MO-1040. PT will require 2 Temporary Tax Employee for key-entry, 1 Tax Processing Tech I for every 19,000 returns to be verified by Quality Review, and 1 Tax Processing Tech I for every 2,400 pieces of correspondence. They will also require 2 Temporary Tax Employees for key-entry of 1040P and PTC forms, and 1 Tax Processing Tech I for every additional 5,000 verified returns plus correspondence on the 1040P/PTC forms.

Section 620.1881 requires a tax clearance prior to the issuance of any tax credits. Customer Assistance anticipates an increase in contacts on the delinquency phone lines. Therefore, Customer Assistance would require 2 Tax Collection Technician I (1 for Quality Jobs & 1 for Enhanced Enterprise) for every additional 15,000 contacts. Customer Assistance also anticipates additional contacts in the field offices and would require 1 Tax Processing Technician I for every additional 4,800 contacts in the field. Customer Assistance expects most customers to contact our offices by phone, therefore, believe the field contacts could be handled with existing staff.

Due to the Statewide Information Technology Consolidation, the department's response to a proposal will now also reflect the cost estimates prepared by OA-IT for impact to the various systems. As a result, the impact shown may not be the same as previous fiscal notes submitted. In addition, if the legislation is Truly Agreed to and Finally Passed the OA-IT costs shown will be requested through appropriations by OA-IT.

Office of Administration Information Technology (ITSD DOR) estimates the IT portion of this request can be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement. Office of Administration Information Technology (ITSD DOR) estimates that this legislation could be implemented utilizing 5 existing CIT III for 4 months, 3 CIT III for 2 months, and 1 FTE for 1 month at a cost of \$116,802.

ASSUMPTION (continued)

In summary, DOR assumes the need for eight additional FTE, plus four additional temporary employees. DOR assumes an annual cost of roughly \$360,000 to the General Revenue Fund for their agency to administer this proposal.

Officials from the **Office of the Secretary of State - Administrative Rules (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to Secretary of State's office for Administrative Rules is less than \$2,500. The Secretary of State's office recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state it is unknown how many insurance companies will choose to participate in tax credit programs authorized under this legislation. The department can not estimate how much would be lost in premium tax revenue as a result of tax credits. Credits cannot exceed total tax liability and in some instances carry forward or transferred, sold or assigned. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts through out the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by these tax credits each year.

DIFP will require minimal contract computer programming to add these credits to the premium tax database and should be able to do so under existing appropriation.

Officials from the **Department of Social Services** assume the changes to the contributions to shelters for victims of domestic violence, maternity homes, pregnancy resource centers and residential treatment agencies would not result in any significant fiscal impact to their agency. The caps on the tax credits remains the same.

ASSUMPTION (continued)

Oversight compared the total tax credit issuances relative to the total tax credit redemptions for the previous three years in order to determine a relationship between the two. Oversight discovered that the annual redemptions ranged from 79 percent to 86 percent of the annual issuances. Depending on the program, the redeemed credits may have been issued several years prior and carried forward to the years studied; however, Oversight will utilize an estimated redemption total of 83 percent of tax credits issued.

Oversight assumes the ‘rebuttable presumption’ language within Section 144.030.2 would result in an unknown negative fiscal impact on the state’s General Revenue Fund and other state funds which receive sales tax revenues, as well as on local governments. The primary impact of this provision would be on local governments where there is motor vehicle manufacturing.

Oversight will range the fiscal impact of the new program and the expansion of the existing programs from \$0 (no additional tax credits will be issued) to the annual limit on the new program or the change in annual limits on the existing programs.

Oversight assumes the many changes made to the various programs (including opening up the programs to charitable organizations or adding language making credits sellable or transferable) may increase the utilization of the programs and therefore increase the issuances of the tax credits. However, the fiscal notes from when these programs were created or last updated, reflected the potential loss of income to the state of \$0 up to the annual limits. Therefore, while these changes may result in increased utilization of the programs, Oversight will not reflect additional fiscal impact.

Oversight assumes there would be some positive economic benefit to the state as a result of the changes in this proposal, however, Oversight considers these benefits to be indirect and therefore, have not reflected them in the fiscal note.

Oversight has received additional information regarding the changes made to Section 144.030. The Department of Revenue (DOR) states that this change will not have an impact on general revenue collections. Currently, automobile manufacturers are given this sales tax exemption with the proper documentation. The change in this section simply allows the companies to get the exemption without providing the proof to DOR. DOR stated this is the only sales tax exemption that requires companies to submit such documentation to receive. Therefore, Oversight will assume the changes to Section 144.030 within this proposal will not have an unknown fiscal impact on state revenues as previously assumed.

This proposal could reduce Total State Revenues.

| <u>FISCAL IMPACT - State Government</u> | FY 2008 | FY 2009 | FY 2010 |
|---|-------------|--------------------------|--------------------------|
| GENERAL REVENUE | | | |
| <u>Costs - Department of Economic Development (DED)</u> | | | |
| Personal Service | (\$90,463) | (\$186,353) | (\$186,353) |
| Fringe Benefits | (\$40,943) | (\$84,343) | (\$84,343) |
| Expense and Equipment | (\$85,617) | (\$72,232) | (\$74,400) |
| <u>Total Costs - DED</u> | (\$217,023) | (\$342,928) | (\$345,096) |
| FTE Change - DED | 4 FTE | 4 FTE | 4 FTE |
| <u>Costs - Department of Revenue</u> | | | |
| Personal Service (8 FTE) | (\$98,056) | (\$201,013) | (\$206,039) |
| Temporary Employees (4 temps) | (\$26,650) | (\$32,780) | (\$33,599) |
| Fringe Benefits | (\$44,380) | (\$90,978) | (\$93,253) |
| Expense and Equipment | (\$62,430) | (\$23,097) | (\$23,790) |
| <u>Total Costs - DOR</u> | (\$231,516) | (\$347,868) | (\$356,681) |
| FTE Change - DOR | 8 FTE | 8 FTE | 8 FTE |
| <u>Costs - Department of Higher Education</u> | | | |
| Personal Service (1 FTE) | (\$18,025) | (\$37,132) | (\$38,245) |
| Fringe Benefits | (\$8,158) | (\$16,806) | (\$17,310) |
| Expense and Equipment | (\$5,954) | (\$309) | (\$318) |
| <u>Total Costs - DHE</u> | (\$32,137) | (\$54,247) | (\$55,873) |
| FTE Change for DHE | 1 FTE | 1 FTE | 1 FTE |
| <u>Loss - DED</u> | | | |
| Distressed Areas Land Assemblage Tax Credit (Section 99.1200) | \$0 | \$0 to (\$10,000,000) | \$0 to (\$10,000,000) |
| <u>Loss - DED</u> | | | |
| Qualified Beef Tax Credit (Section 135.679) | \$0 | \$0 | \$0 to (\$3,000,000) |
| <u>Loss - tax credit for qualified equity investments (Section 135.680)</u> | | | |
| | \$0 | \$0 | \$0 to (\$15,000,000) |

FISCAL IMPACT - State Government FY 2008 FY 2009 FY 2010
 (continued)

Loss - DED

| | | | |
|---|-----|-------------------------|-------------------------|
| Film production credits cap raised from \$1.5 million to \$4.5 million (135.750) | \$0 | \$0 to (\$3,000,000) | \$0 to (\$3,000,000) |
|---|-----|-------------------------|-------------------------|

Loss - DED

| | | | |
|---|-------------------------|-------------------------|-------------------------|
| Enhanced Enterprise Zone program (increase annual cap from \$7 million to \$14 million) Section 135.967 | \$0 to (\$7,000,000) | \$0 to (\$7,000,000) | \$0 to (\$7,000,000) |
|---|-------------------------|-------------------------|-------------------------|

* Unknown expected to exceed \$100,000

Loss - DED

| | | | |
|--|---------------------------------|---------------------------------|---------------------------------|
| Missouri Quality Jobs Act (increase to annual cap in 620.1881.5 from \$12 million to \$40 million) | \$0 to <u>(\$28,000,000)</u> | \$0 to <u>(\$28,000,000)</u> | \$0 to <u>(\$28,000,000)</u> |
|--|---------------------------------|---------------------------------|---------------------------------|

| | | | |
|---|--|--|--|
| ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND | (\$480,676 - <u>\$35,480,676</u>) | (\$745,043 - <u>\$48,745,043</u>) | (\$757,650 - <u>\$66,757,650</u>) |
|---|--|--|--|

| | | | |
|--|--------|--------|--------|
| Estimated Net FTE Change for General Revenue Fund | 13 FTE | 13 FTE | 13 FTE |
|--|--------|--------|--------|

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

FISCAL IMPACT - Local Government FY 2008 FY 2009 FY 2010

| | | |
|------------|------------|------------|
| <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
|------------|------------|------------|

FISCAL IMPACT - Small Business

Small businesses that qualify for the various programs added or changed in this proposal could be fiscally impacted as a result of this proposal.

FISCAL DESCRIPTION

This bill changes the laws regarding economic development programs.

ADMISSION TICKET SALES (Section 67.306, RSMo)

A city or county is prohibited from selling or reselling tickets for admission to any legal event at any price, but the fees associated with the sale or resale are permitted. Ordinances or regulations related to criminal activity, consumer fraud, false advertising, or other deceptive business practices will still be enforced.

TAX INCREMENT FINANCING (Sections 99.805, 99.820, and 99.843)

The bill defines "greenfield area" as it relates to tax increment financing (TIF).

Franklin County is required to create a county-wide TIF commission. Cities within Franklin County that want to implement a TIF project must first receive the approval of the county's TIF commission. Currently, county-wide TIF commissions must be created in the counties of Jefferson, St. Charles, and St. Louis. Any city within these counties wanting to implement a TIF project must first receive the approval of its county's TIF commission.

New TIF projects are prohibited from being authorized in any greenfield area located within St. Louis City or the counties of Franklin, Jefferson, St. Charles, and St. Louis.

DISTRESSED AREAS LAND ASSEMBLAGE TAX CREDIT ACT (Section 99.1205)

The bill establishes the Distressed Areas Land Assemblage Tax Credit Act which authorizes, beginning January 1, 2008, a tax credit equal to 50% of the costs and 100% of the interest incurred for the acquisition of an eligible parcel of land.

Eligible parcels must be located within an eligible project area which is to be redeveloped and must be acquired before the applicant begins condemnation proceedings. Parcels acquired by the applicant from a municipal authority are not included. The applicant cannot redevelop more than 75% of the area identified in the redevelopment plan. The remainder of the area must be redeveloped by an individual or company to whom the applicant has assigned its redevelopment rights under the plan. Funds raised through the use or sale of these tax credits must be used to

FISCAL DESCRIPTION (continued)

redevelop the eligible project area. Applicants can receive these credits for up to five years after the land's acquisition. These credits may be carried forward for up to six years or sold.

No more than \$10 million tax credits can be issued annually, and no more than \$95 million can be issued for the life of the program. If applications for the tax credit exceed \$10 million in any year, the Department of Economic Development can issue the entire amount to one applicant if there is only one eligible applicant or on a pro rata basis to all the eligible applicants. Any eligible amount which is not issued because of the \$10 million annual limit will be carried forward and reserved for the applicant in future years.

Eligible project areas must meet the following requirements:

- (1) The area must consist of at least 75 acres, which can include parcels which are not eligible parcels;
- (2) At least 80% of the area must be located within a Missouri qualified census tract area or a distressed community;
- (3) Eligible parcels acquired by the applicant within in the project area must be at least 75 acres; however, the parcels are not required to be contiguous;
- (4) The average number of parcels per acre must be at least four; and
- (5) Less than 5% of the acreage within the area's boundaries can consist of owner-occupied residences which the applicant has identified for acquisition.

An applicant is any person or company which has incurred acquisition costs for land meeting the requirements for an eligible project area and who has been appointed or selected by a municipal authority to redevelop an urban renewal area, a redevelopment area that includes all of an eligible project area, or a redevelopment plan or area which has been approved or adopted under a Missouri economic incentive act.

No tax credits can be authorized for the program after August 28, 2013.

FEDERAL INCOME TAX EXEMPTIONS

The bill revises the definition of "business firm" to include charitable organizations that are exempt from federal income tax as it relates to the Neighborhood Assistance Program (Section 32.105).

FISCAL DESCRIPTION (continued)

The definition of "taxpayer" is revised to include charitable organizations that are exempt from federal income tax as it relates to the Missouri Development Finance Board (Section 100.286),

Neighborhood Preservation Act (Section 135.478), Transportation Development in a Distressed Area Tax Credit (Section 135.545), Domestic Violence Shelters Tax Credit (Section 135.550), Maternity Home Tax Credit (Section 135.600), Residential Treatment Agency Tax Credit (Section 135.1150), Small Business Incubator Tax Credit (Section 620.495), and Qualified Research Expenses Tax Credit (Section 620.1039).

The definition of "person" is revised to include charitable organizations that are exempt from federal income tax as it relates to the Missouri Certified Capital Company Law (Section 135.500), Seed Capital Tax Credit (Section 348.300), and New Enterprise Creation Tax Credit (Section 620.638).

The bill also revises the definition of "taxpayer" to include charitable organizations that are exempt from federal income tax as it relates to the Pregnancy Resource Center Tax Credit (Section 135.630) and Missouri Higher Education Scholarship Donation Fund (Section 173.196) and allows these credits to be sold or transferred for at least 75% of par value.

QUALIFIED BEEF TAX CREDIT ACT (Section 135.679)

The Qualified Beef Tax Credit Act is established which allows a tax credit for each qualifying sale of a qualifying beef animal. From January 1, 2009, to December 31, 2016, the credit will be equal to 10 cents per pound for each pound above the animal's baseline weight, as long as the sale weight is at least 200 pounds above the baseline weight. The Agricultural and Small Business Development Authority can waive a portion of the weight gain requirement, but only in circumstances where a disaster declaration is issued by the United States Department of Agriculture.

A qualifying beef animal must be born in Missouri after August 28, 2008; raised and backgrounded or finished in Missouri by the taxpayer; less than 30 months old; and certified by the authority.

The tax credit must be claimed in the year in which the qualifying sale occurs. Any unused portion may be carried back three years or carried forward five years. No more than \$3 million in credits can be issued in a fiscal year.

FISCAL DESCRIPTION (continued)

NEW MARKETS - QUALIFIED EQUITY INVESTMENT TAX CREDIT (Section 135.680)

The bill authorizes a tax credit equal to 7% of the adjusted purchase price paid to the issuer of a qualified equity investment for the third credit allowance date and 8% for the next four credit allowance dates. The tax credits are not transferable or refundable but may be carried forward for up to five years. No more than \$15 million of these tax credits can be utilized annually.

The state is allowed to recapture credits when permissible under federal law and in situations where the issuer redeems or makes any principal repayments with respect to the qualified investment before the seventh anniversary of the investment's issuance. Any tax credit subject to recapture will be taken from the taxpayer that claimed the tax credit on a return.

No qualified equity investments can be made after Fiscal Year 2010 unless the program is reauthorized by the General Assembly.

FILM PRODUCTION TAX CREDITS (Section 135.750)

For tax years beginning January 1, 2008, the bill lowers the minimum budget expenditure from \$300,000 to \$50,000 for a qualified film production project less than 30 minutes in length or \$100,000 for a project longer than 30 minutes. The bill removes the individual project credit cap of \$1 million and increases the total annual program cap from \$1.5 million to \$4.5 million. The credit will be equal to 35% of the qualifying expenses for the project, which cannot include wages for highly compensated individuals.

ENHANCED ENTERPRISE ZONES (Sections 135.950, 135.963, and 135.967)

The bill changes the laws regarding enhanced enterprise zones. The bill:

- (1) Revises the definition of "employee" to a person employed by the enhanced business enterprise that is scheduled to work an average of at least 1,000 hours per year. Health insurance must be offered to employees at all times and must be partially paid by the employer. Currently, the definition of "employee" includes full-time, part-time, and seasonal employees;
- (2) Adds educational services, religious organizations, and public administration to the list of entities which are prohibited from being enhanced business enterprises. However, the headquarters or administrative offices which would otherwise be excluded may qualify for benefits if the offices serve a multi-state territory;

FISCAL DESCRIPTION (continued)

(3) Defines "facility base employment," "facility base payroll," "new job," "notice of intent," "related facility," and "related facility base employment";

(4) Allows speculative industrial or warehouse buildings constructed by a public entity, or a private entity if the land is leased by a public entity, to be exempt from ad valorem taxes, upon the approval of the governing authority. If the speculative building is owned by a private entity, the exemption cannot exceed two years. If it is owned or leased by a public entity, the exemption cannot exceed five years. Currently, only enhanced business enterprises can be exempt from these taxes;

(5) Increases the cap on the amount of tax credits that can be issued in a calendar year from \$7 million to \$14 million; and

(6) Requires the Department of Economic Development to verify through the Department of Revenue that the tax credit applicant does not owe any delinquent taxes, interest, or penalties and to verify through the Department of Insurance, Financial Institutions, and Professional Registration that the applicant does not owe any delinquent insurance taxes prior to issuing any tax credits. The amount of tax credits issued will be reduced by any tax delinquency.

TAX EXEMPTION FOR AUTO MANUFACTURING (Section 144.030)

Currently, electricity used in the primary manufacturing of automobiles is exempt from local and state sales taxes if the raw materials used in the processing contain at least 25% recovered materials taxes. The bill specifies that raw materials used during the primary manufacturing of automobiles will be assumed to contain at least 25% recovered materials.

VOCATIONAL SCHOOL DISTRICTS (Section 178.716)

The counties of Bollinger, Butler, Cape Girardeau, Dunklin, Mississippi, New Madrid, Pemiscot, Ripley, Scott, Stoddard, and Wayne are authorized to organize a vocational school district. The Coordinating Board for Higher Education must establish specified standards for the district.

COMMUNITY COLLEGE NEW JOB TRAINING PROGRAM (Sections 178.895 and 178.896)

The bill allows community college districts to sell new job training program certificates until July 1, 2018, and extends the program until July 1, 2028. Currently, the program will expire on July 1, 2018; and the authorization to sell certificates expires July 1, 2008.

FISCAL DESCRIPTION (continued)

MISSOURI WORKFORCE INVESTMENT BOARD (Sections 620.511 - 620.513, 620.521 - 620.530, and 620.537)

The Missouri Workforce Investment Board is established to provide workforce investment activities that increase the employment, retention, and earnings of participants and improve the quality of the workforce, reduce welfare dependency, and enhance the productivity and competitiveness of Missouri.

The bill specifies the membership and terms of the board members and requires the board to meet the requirements of the federal Workforce Investment Act (WIA) of 1998 and assist the Governor with the functions described in Section 111(d) of the WIA 29 USC 2821d. The board must meet at least four times per year and submit an annual report of its activities to the Governor and General Assembly.

The Missouri Training and Employment Council Act is repealed and the Missouri Training and Employment Council is dissolved.

QUALITY JOBS PROGRAM (Sections 620.1878 and 620.1881)

The bill changes the laws regarding the Quality Jobs Program. The bill:

- (1) Defines "approval," "project facility base payroll," and "related facility base payroll";
- (2) Allows tax credits to offset taxes due from financial institutions under Chapter 148. Currently, the credits can only be used to offset state income taxes imposed under Chapter 143;
- (3) Specifies the way in which the county average wage will be calculated when a qualified company relocates employees from one county to another;
- (4) Revises the definition of "full-time employee" from an employee who works an average of 35 hours per week to an employee of the qualified company who is scheduled to work an average of 35 hours per week, but leaves the remaining requirements of the definition unchanged;
- (5) Changes the calculation of "new direct local revenue" so that local earnings taxes are excluded;
- (6) Specifies that no jobs created before the notice of intent will be deemed new;
- (7) Specifies the way in which "new payroll" will be calculated;

FISCAL DESCRIPTION (continued)

(8) Adds educational services, religious organizations, public administration, and utilities regardless of whether or not they are regulated by the Missouri Public Service Commission to the list of entities which are prohibited from being qualified companies. However, the headquarters or administrative offices which would otherwise be excluded may qualify for benefits if the offices serve a multi-state territory;

(9) Expands the definition of "technology business project" to include a qualified company that researches, develops, or manufactures power system technology for aerospace, space, defense, hybrid vehicles, or implantable or wearable medical devices;

(10) Revises the definition of "withholding tax" to a computation using a schedule determined by the Department of Economic Development based on average wages. Currently, the definition is the state tax imposed under Sections 143.191 - 143.265;

(11) Increases the cap on the amount of tax credits that can be issued in a calendar year for the program from \$12 million to \$40 million;

(12) Expands the types of projects which are eligible to receive benefits to include small business job retention and flood survivor relief projects. In this case, a qualified company may receive a tax credit for the retention of jobs and flood survivor relief in this state for each job retained over a three-year period. The bill specifies the requirements which must be met for this type of project, including that the qualified company has fewer than 100 employees, the company's average wage must meet or exceed the county average wage, all of the company's facilities are located in Missouri, and its facilities were directly damaged by flood water rising above the level of a 500-year flood at least two years, but no more than eight years, before an application to the program is made. The qualified company must also invest at least \$2 million in capital improvements in facilities and equipment located at facilities that are not located within a 500-year flood plain. For this project type, the tax credit is equal to up to 100% of the withholding taxes generated by the full-time jobs at the project facility during a three-year period. The calendar year's annual maximum amount of tax credits which can be issued to a qualified company cannot exceed \$250,000. The department can propose that this maximum amount be doubled to \$500,000; however, this must be approved by the Quality Jobs Advisory Task Force. The total annual program cap is \$500,000;

(13) Prohibits a qualified company from participating in the Quality Jobs Program's Small Business Job Retention and Flood Survivor Relief project type if it received any state or federal benefits, incentives, tax relief, or abatement for locating its facility to a flood plain;

FISCAL DESCRIPTION (continued)

(14) Requires any taxpayer who participates in the Quality Jobs Program and knowingly hires illegal immigrants to forfeit the program's benefits and repay the state an amount equal to any tax credits redeemed or withholding taxes already retained;

(15) Allows the calendar year's maximum amount of quality jobs tax credits issued to a qualifying company that participates in both the Quality Jobs Program and the New Job Training Program to be increased by an amount equivalent to the withholding tax retained by that company under the New Job Training Program if the combined benefits do not exceed the projected state benefits of the project;

(16) Requires that if the calendar year's annual maximum amount of quality jobs tax credits issued to any qualified company is increased by \$1 million, the number of new jobs must exceed 500. Currently, this increase in tax credits can occur by receiving the approval of the department and the Quality Jobs Advisory Task Force;

(17) Requires the department to give preference to qualified companies and projects targeted at an area of the state which has recently been classified as a disaster area by the federal government;

(18) Allows qualified companies to retain withholding taxes once the minimum number of new jobs has been attained and the county average wage has been exceeded; and

(19) Requires the Department of Economic Development to verify through the Department of Revenue that the tax credit applicant does not owe any delinquent taxes, interest, or penalties and to verify through the Department of Insurance, Financial Institutions, and Professional Registration that the applicant does not owe any delinquent insurance taxes prior to issuing any tax credits. The amount of tax credits issued will be reduced by any tax delinquency.

The provisions regarding the New Markets - Qualified Equity Investment Tax Credit and the Film Production Tax Credits will expire six years from the effective date.

The bill contains an emergency clause.

SOURCES OF INFORMATION

Office of Administration - Budget and Planning
Department of Revenue
Department of Insurance, Financial Institutions and Professional Registration
Office of the Secretary of State
Department of Transportation
Department of Agriculture
Office of the State Treasurer
Department of Social Services
Department of Economic Development
Department of Higher Education

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
August 28, 2007